

VZCZCXRO4614

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DE RUEHVI #2980 3521519
ZNR UUUUU ZZH
R 181519Z DEC 07
FM AMEMBASSY VIENNA
TO RUEHC/SECSTATE WASHDC 9191
INFO RHEBAAA/DEPT OF ENERGY WASHDC
RUEHZL/EUROPEAN POLITICAL COLLECTIVE

UNCLAS VIENNA 002980

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E.O. 12958: N/A

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SUBJECT: BACKGROUND AND PROSPECTS FOR RECENT OMV-GAZPROM DEALS

REF: VIENNA 2853

11. (U) In September 2006, Austria's OMV negotiated an extension of its gas supply agreement with Gazprom that will guarantee that Russian gas is routed through OMV's Baumgarten gas distribution center until 2027. As part of that deal, Gazprom obtained the right to market gas in three of the nine Austrian states. This agreement was consistent with Austria's 2002 gas market liberalization, which gave foreign suppliers equal access to the domestic gas market. Marketing of Russian gas is handled by a consortium, GWH (Gas und Warenhandels GmbH), owned by Gazprom subsidiary Gazexport (50%), the Russian gas marketer Centrex (24.9%), and OMV (25.1%).

12. (U) In May 2007, in connection with President Putin's Vienna visit, OMV and Gazprom signed a MoU allowing Gazprom to buy 50% of OMV's year-old gas trading platform, the so-called Central European Gas Hub (CEGH) (reftel). OMV's rationale for the sale was explained by CEGH Managing Director Harald Wuestrich in November: The deal "can only work on a parity basis. Gazprom has the gas," while OMV has the physical hub and infrastructure for delivery of the gas. OMV's strategic goal is to make the CEGH "the biggest gas (trading floor) in continental Europe," and OMV apparently believes that it can only do so by linking in Europe's main gas supplier. The now almost two-year old CEGH has about 40 active traders trading about 1.8 bcm of gas per month. The CEGH also trades gas storage.

13. (U) OMV is apparently pulling back from participation in the GWH gas distribution deal. In August 2007 OMV announced that it would sell its shares in GWH, allowing the Russians to market gas distribution on their own. This could be implemented next year. OMV gas department director Werner Auli said that compensation for OMV's share will not come from Gazprom. Apparently because of Gazprom's lack of interest, OMV has also had problems completing the sale of 50% of the CEGH to Gazprom. To date, the deal has still not been completed. Wuestrich was hoping it would be completed "within weeks." Two weeks ago, our contact in the OMV's gas department told us that the deal should be still finalized in December.

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